

WATER/SNR/PTL/LEP: jlj

PUBLIC UTILITIES COMMISSION OF THE STATE OF CALIFORNIA

WATER DIVISION

RESOLUTION NO. W-4613

August 24, 2006

R E S O L U T I O N

(RES. W-4613), WATERTEK, INC., METROPOLITAN DISTRICT
(WATERTEK). ORDER AUTHORIZING A GENERAL RATE
INCREASE PRODUCING AN ADDITIONAL ANNUAL
REVENUE OF \$7,970 OR 103% IN TEST YEAR 2006.

SUMMARY

By Draft Advice Letter, filed on March 20, 2006, Watertek's Metropolitan District seeks an increase in its rates for water service to recover increased expenses of operation and earn an adequate return on its plant investment. The Water Division (Division) accepted this draft advice letter as complete for filing on May 15, 2006.

For Test Year 2006, this resolution grants an increase in gross annual revenues of \$7,970 or 103% which is estimated to provide a return of margin of 25%.

BACKGROUND

Watertek's Metropolitan District, a Class D water utility, has requested authority under Section VI of General Order 96-A and Section 454 of the Public Utilities Code to increase its water rates by \$10,008 or 137% for test year 2006. The purpose of the rate increase is to recover increased operating expenses and to provide an adequate rate of return. Metropolitan's request shows 2006 gross revenues of \$7,323 at present rates increasing to \$17,356 at proposed rates. Metropolitan is requesting a return-on-rate base of 15.4%.

The last general rate case for Metropolitan was granted on April 10, 1991 per Res. No. W-3555, which authorized an increase of \$4,432 or 123.1% for test year 1991 with a zero rate of return on rate base for test year 1991. Watertek was authorized a Consumer Price Index (CPI) increase of \$273.09 or 3.4% effective January 3, 2002.

Ownership of Watertek was transferred to Douglas F. Elliott and Catherine J. Elliott, (husband and wife) of Porterville, Tulare County per Decision (D.) 04-01-006. Watertek has three districts: Grand View Gardens District serves an area near Porterville and has approximately 100 flat-rate customers. The East Plano District is also in the Porterville

area and serves 13 customers. The Metropolitan District serves 29 customers and is located approximately two miles west of Fresno, California, in Fresno County. The Metropolitan system consist of one well, a steel pressure/storage tank, and distributions mains.

Watertek's owners, Douglas and Catherine Elliott, are also the only employees. Douglas is the manager and operator of the three systems. He holds a Grade I water treatment facility operator's license as well as a Grade I distribution system operator's license. Catherine is the office manager whose duties include, but not limited to, meter reading, processing, and mailing bills, bookkeeping, preparing annual reports and taking water samples to the laboratory for testing. The Elliotts charged 13% of their salaries to the Metropolitan District. The number of customers is not expected to increase.

NOTICE AND PROTEST

A notice of the proposed rate increase was mailed to the customers on May 20, 2006. The Division did not receive any letters protesting the increase.

DISCUSSION

The Division made an independent analysis of Metropolitan's operations. Appendix A shows Metropolitan's and the Division's estimated summary of earnings at present, proposed, and recommended rates for test year 2006. Metropolitan is in agreement with the summary of earnings at the Division's recommended rates shown in Appendix A.

The Division staff reviewed operating revenues and expenses, including purchased power, employee labor, materials, water testing, plant maintenance, office salaries, office services and rentals, office supplies and expenses, professional services, insurance, regulatory and general expenses, depreciation, and property taxes. Staff verified the operating expenses by reviewing supporting documents for substantiation and accuracy, and included the amounts that were deemed reasonable and prudent.

The major differences in Metropolitan's rate base were in average plant, accumulated and rate base. The Division used the rate base adopted in D.04-01-006. The Division also included in its estimate \$6,200 for a replacement pump.

Metropolitan has requested a rate of return of 15.4%. The Division's Audit and Compliance Branch (A&C) recommends a rate of return from 12.75% to 13.75% for a Class D, 100% equity-financed utility. Two methods are available for Division to utilize in the rate-making process: (1) Rate of Return and (2) Rate of Margin. In Res. W-4524

(March 17, 2005), the Commission adopted a revised set of standard practices for determining the profit for Class C and D water utilities using the rate of return and rate of margin methods. Both methods are to be used. Per D.92-03-093, dated March 31, 1992, the Division must recommend the method that produces the higher revenues. In the rate of margin method, the utility's return is defined as the sum of its operating and maintenance expenses, depreciation, income and other taxes, multiplied by the rate of margin. This method gives the small water utilities the opportunity to earn a more reasonable and appropriate revenue requirement when the utility has "little rate base". If only the Rate of Return Method was used, a utility with little or no rate base would earn little or no return. A&C has recommended a rate of margin of 25% for Class D water utilities. A comparison of the two methods indicates that the rate of margin method produces a higher return; therefore, the Division recommends the rate of margin method.

Metropolitan's rate structure consists of two schedules: 1-MP, General Metered Service; and 2-MP, Residential Flat Rate Service. The rates proposed by the Branch are shown in Appendix B. At the recommended rate of margin the increase in revenue will be \$7,970 or 103% for test year 2006.

At the Division's recommended rates shown in Appendix B, the bill for a 5/8x3/4-inch metered residential customer using the system average of 1,600 cu. ft. would increase from \$22.04 to \$44.86 or 103.5%. A comparison of customer bills at present and recommended rates is shown in Appendix C. The adopted quantities and tax calculations are shown in Appendix D.

COMPLIANCE

Metropolitan has no outstanding compliance orders. The utility has been filing annual reports as required. However, Metropolitan needs to update the following: Rules Nos. 3, Application for Service; 5, Information Required on Forms; and 10, Disputed Bills.

COMMENTS

This is an uncontested matter in which the resolution grants the relief requested. Accordingly, pursuant to PU Code 311(g)(2), the otherwise applicable 30-day period for public review and comment is being waived.

FINDINGS

1. The Division's recommended Summary of Earnings shown in Appendix A is reasonable and should be adopted.

2. The rates recommended by the Division (Appendix B) are reasonable and should be adopted.
3. The quantities (Appendix D) used to develop the Division's recommendations are reasonable and should be adopted.
4. Watertek should be authorized to update the following rules: Rules Nos. 3, Application for Service; 5, Information Required on Forms; and 10, Disputed Bills.

THEREFORE IT IS ORDERED THAT:

1. Authority is granted under Public Utilities Code Section 454 to Watertek Inc. Metropolitan District, to file an advice letter incorporating the summary of earnings and the revised rate schedules attached to this resolution as Appendices A and B, respectively, and concurrently cancel its presently effective rate Schedules Nos. 1-MP, General Metered Service, and 2-MP, Residential Flat Rate Service. The effective date of the revised schedules shall be five days after the date of filing.
2. Watertek, Inc., Metropolitan District is authorized to increase its annual revenues by \$7,970 or 103% for test year 2006.
3. Watertek, Inc., Metropolitan District shall update the following rules in its tariff book: Rules Nos. 3, Application for Service; 5, Information Required on Forms; and 10, Disputed Bills.
4. This resolution is effective today.

I certify that the foregoing resolution was duly introduced, passed, and adopted at a conference of the Public Utilities Commission of the State of California held on August 24, 2006; the following Commissioners voting favorably thereon:

/s/ STEVE LARSON

STEVE LARSON
Executive Director

MICHAEL R. PEEVEY
President
GEOFFREY F. BROWN
DIAN M. GRUENEICH

Resolution W-4613
WATERTEK/DRAFT AL/SNR/PTL/LEP/jlj

August 24, 2006

JOHN A. BOHN
RACHELLE B. CHONG
Commissioners

APPENDIX A
WATERTEK, INC. - METROPOLITAN DISTRICT
SUMMARY OF EARNINGS
Test Year 2006

	Utility Estimated		Division Estimated		Division
	Present	Proposed	Present	Proposed	Recommended
	Rates	Rates	Rates	Rates	Rates
<u>Operating Revenues</u>					
Unmetered Revenue	\$2,315	\$5,487	\$2,283	\$5,388	\$4,570
Metered revenue	5,008	11,869	5,487	13,007	11,170
Total revenue	7,323	17,356	7,770	18,394	15,740
<u>Operating Expenses:</u>					
Purchased power	1,941	1,941	1,941	1,941	1,941
Contract work	600	600	600	600	600
Water testing	600	600	600	600	600
Transportation expenses	528	528	528	528	528
Other plant maintenance	950	950	950	950	950
Office salaries	2,184	2,184	2,184	2,184	2,184
Management	1,950	1,950	1,950	1,950	1,950
Office services & rentals	624	624	624	624	624
Office supplies & expenses	507	507	507	507	507
Professional services	634	634	634	634	634
Insurance	218	218	218	218	218
General expenses	19	19	19	19	19
Total operating expenses	10,755	10,755	10,755	10,755	10,755
Depreciation expense	500	500	367	367	367
Taxes Other than Income	979	979	778	778	778
State taxes	800	800	800	800	800
Federal income taxes	-	648	-	854	456
Total deductions	13,034	13,682	12,701	13,555	13,156
Net Revenue	(5,711)	3,673	(4,931)	4,840	2,584
<u>Rate Base</u>					
Average Plant	25,323	25,323	6,313	6,313	6,313
Aver. Acc. Dep.	1,500	1,500	1,036	1,036	1,036
Net Plant	23,823	23,823	5,278	5,278	5,278
Plus: Working Cash	-	-	-	-	-
Materials & supplies	-	-	-	-	-
Less: Contributions	-	-	-	-	-
Rate Base	23,823	23,823	5,278	5,278	5,278
Rate of Return	(23.97%)	15.4%	(93.4%)	91.7%	48.96%
Rate of Margin					25%

(END OF APPENDIX A)

APPENDIX B
Page 1
Watertek Inc.
Metropolitan District

Schedule No. 1-MP

GENERAL METERED SERVICE

APPLICABILITY

Applicable to all metered water service.

TERRITORY

Skaal Knoll Homesites, located approximately two miles west of Fresno, Fresno County, and west half of lot 53 of West Fresno Tract.

RATES

Quantity Rates:

All usage, per 100 cu.ft.....	\$	1.77	(I)
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Service Charge:

For	5/8 x 3/4-inch meter.....	\$	16.54	(I)
For	3/4-inch meter	\$	24.80	
For	1-inch meter	\$	41.35	
For	1-1/2-meter.....	\$	82.70	
For	2-inch meter	\$	132.32	(I)

This Service Charge is a readiness-to-serve charge, which is applied to all metered service and to which is added the monthly charge computed at the Quantity Rate.

SPECIAL CONDITIONS

1. All bills are subject to the Reimbursement Fee set forth in Schedule No. UF.

APPENDIX B
Page 2
Watertek, Inc.
Metropolitan District

Schedule No. 2-MP

RESIDENTIAL FLAT RATE SERVICE

APPLICABILITY

Applicable to all water service furnished to privately owned fire protection systems.

TERRITORY

Skaal Knoll Homesites, located approximately two miles west of Fresno, Fresno County, and west half of Lot 53 of West Fresno Tract.

RATES

	<u>Per Service Connection Per Month</u>	
For a single-family residential unit including premises	\$ 47.60	(I)
For each additional single family residential unit on the same premises and served from the same service connection	\$ 31.00	(I)

SPECIAL CONDITIONS

1. The above flat rates apply to service connections not larger than one inch in diameter.
2. All service not covered by the above classification will be furnished only on a metered basis.
3. A meter may be installed at the option of the utility in which event service thereafter will furnished under Schedule No. 1, General Metered Service.
4. All rates are subject to the reimbursement fee set forth in Schedule No. UF.

(END OF APPENDIX B)

APPENDIX C
Watertek, Inc.
Metropolitan District
Schedule No. 1-MP
Metered Service
Test Year 2006

COMPARISON OF RATES:

METERED SERVICE

	<u>Present</u> <u>Rates</u>	<u>Per Meter</u> <u>Proposed</u> <u>Rates</u>	<u>Percent</u> <u>Increase</u>
For 5/8 x 3/4-inch meter	\$ 7.96	\$ 16.54	108%
For 3/4-inch meter	11.89	24.80	109%
For 1-inch	19.90	41.35	108%
For 1 1/2-inch meter	39.81	82.70	108%
For 2-inch meter	63.59	132.32	108%

Quantity Rate:

All water, per 100 cu.ft.	\$0.88	\$1.77	101%
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Comparison of a monthly typical bill for residential metered customers with a 5/8 x 3/4 inch is shown below at current rates and recommended rates for test year 2006.

Usage	Present	Recommended	Increase	Percent
0	\$ 7.96	\$ 16.54	\$ 8.58	108%
5	12.36	25.39	13.03	105%
10	16.76	34.24	17.48	104%
16 Avg.	22.04	44.86	22.82	104%
20	25.56	51.94	26.38	103%

(END OF APPENDIX C)

APPENDIX D
Watertek, Inc.
Metropolitan District
Adopted Quantities
Test Year 2006

Purchased Power	\$ 1,941
kWh	10,626
Property Tax	220
Management Salary	1,950

Service Connections

Metered Rates	
5/8 x 3/4	21
Flat Rates	<u>8</u>
Total	29

INCOME TAX CALCULATIONS
Test Year 2006

Operating Revenues	15,740
Operating Expenses	10,755
Depreciation	367
Taxes Other Than Income	778
Income Before Taxes	3,840
State Tax	800
Federal Tax	456
Net Income	2,584

(END OF APPENDIX D)

